



Sean Rogan
Executive Director

**HOUSING AUTHORITY
of the County of Los Angeles**

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ADOPTED

BOARD OF COMMISSIONERS
HOUSING AUTHORITY

May 10, 2011

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The Honorable Board of Commissioners
Housing Authority of the
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

Dear Commissioners:

**APPROVE THE USE OF HOUSING AUTHORITY FUNDS TO FUND OTHER POST
EMPLOYMENT BENEFITS
(ALL DISTRICTS) (3 VOTE)**

SUBJECT

This letter requests that the Board of Commissioners authorize the use of \$4,868,483 in Housing Authority funds to prefund "other post employment benefits" (OPEB) for Community Development Commission (Commission) employees who administer and operate Housing Authority programs. This letter relates to an item on the agenda of the Board of Commissioners of the Community Development Commission for approval to join the California Employer's Retiree Benefit Trust.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Authorize \$3,792,334 in Housing Authority funds previously allocated to prefunding OPEB and \$1,076,149 in funds included in the Housing Authority's approved Fiscal Year 2010-2011 Budget for the same purpose, to be transferred to the California Public Employees' Retirement System (CalPERS) to fund OPEB.
2. Find that the use of funds to prefund OPEB is not subject to the California Environmental Quality Act (CEQA) because the action is not defined as a project under CEQA and does not have the potential for causing a significant effect on the environment.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The purpose of this action is to approve the use of Housing Authority funds to prefund OPEB through the California Employer's Retirement Benefit Trust Program (CERBT), an irrevocable trust

administered by CalPERS. Through an agreement between CalPERS and the Commission, the Commission will transfer Commission funds and the Housing Authority funds described herein to CalPERS to hold, invest, and distribute assets to pay post retirement health benefits for eligible Commission employees.

FISCAL IMPACT/FINANCING

There is no impact on the County general fund.

Based on a 2010 actuary study, the Commission's current unfunded actuarial accrued liability for retiree health care benefits, assuming pre-funding through the CERBT and assuming an initial transfer of assets of \$7,500,000, is estimated to be \$25,482,618 with an Annual Required Contribution (ARC) of \$1,642,731. These estimates will be adjusted once the transfer has taken place and a new actuarial study will be done in Fall 2011 to ensure that we are Government Accounting Standards Board (GASB) compliant. The new ARC will be included in future years' budgets and adjusted biennially.

The first payment to the trust will be made by June 30, 2011, and is comprised of \$9,142,731 in Housing Authority and Commission funds. The funding consists of \$3,792,334 in Housing Authority and \$3,707,666 in Commission program funds expended by divisions in prior fiscal years to pay for OPEB and \$1,076,149 in Housing Authority and \$566,582 in Commission current fiscal year funds as included in the Housing Authority's and the Commission's approved FY 2010-2011 Budgets.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Since July 1, 1992, the Commission, like the County, has provided retiree medical benefits for eligible officers and regular employees. This benefit allows for the contribution towards the payment of medical insurance for eligible retired employees. Prior to August 3, 2010, employees were 100% eligible for this benefit with 20 years of service or more. Currently, employees with 25 years of service or more are 100% eligible for this benefit. Government Accounting Standards Board (GASB) Statement No. 45, issued in 2004, requires that all government agencies report current expenses and future obligations associated with providing OPEB in financial statements, whereas previously no liability was shown, but was accounted for on a pay-as-you-go basis.

Currently, the Commission funds its retiree health care and OPEB on a pay-as-you-go basis. This approach pays for retiree health benefits in the year the benefits are drawn down by retirees. Based on a 2010 actuary study, the Commission's unfunded actuarial accrued liability under the pay-as-you-go approach is estimated to be \$25,655,648 with an ARC of \$3,303,116. If the Commission prefunds its OPEB and transfers the funds to an irrevocable trust through the CERBT, without an initial transfer of assets into the trust, the actuary results estimate the Commission's unfunded actuarial accrued liability to be \$16,141,376 with an ARC of \$2,306,020. Transferring an initial amount of \$7,500,000 into the trust from funds collected in prior fiscal years and earmarked to pay for OPEB reduces the unfunded actuarial accrued liability to \$8,641,376 with an ARC of \$1,642,731. Future ARCs will be determined by biennial actuarial studies as required by GASB 45. The ARC expenses are allocated annually to Commission and Housing Authority Programs based on current year headcounts.

GASB 45 does not require that the Commission prefund OPEB or require that it be funded through an irrevocable trust, however it requires the Commission to report the net pension obligation on its

financial statements. By prefunding OPEB liabilities, GASB 45 allows the liabilities to be measured using a discount rate based on the underlying investment return of the assets used to provide these benefits which reduces the ARC. In addition, earnings on assets reduce future employer contributions as well as prevent the net obligation from becoming a significant liability on financial statements.

The Commission could continue to prefund OPEB without a trust by setting funds aside and designating them to pay for OPEB. However, by prefunding through a trust, the Commission would be allowed to benefit from a higher investment earnings rate, due to long-term investing and a greater array of security options. Continuing with the pay-as-you-go approach would result in a growing unfunded actuarial liability and net OPEB obligation. Prefunding OPEB through a trust provides the Commission with substantial financial benefits and reduced liabilities.

CalPERS has over 75 years of experience in administering employer sponsored plans and manages assets for over 3,000 California employers. They have fully dedicated employer service specialists and provide quality customer service.

At its meeting of April 27, 2011, the Housing Commission recommended approval of the use of Housing Authority funds for this purpose.

ENVIRONMENTAL DOCUMENTATION

This action is exempt from the provisions of the National Environmental Policy Act pursuant to 24 Code of Federal Regulations, Part 58, Section 58.34 (a)(3) because it involves administrative and management activities that will not have a physical impact on or result in any physical changes to the environment. The action is not subject to the provisions of CEQA pursuant to State CEQA Guidelines 15060(c)(3) and 15378 because it is not defined as a project under CEQA and does not have the potential for causing a significant effect on the environment.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The recommended actions will level annual retiree healthcare cost contributions and reduce the Housing Authority's financial liabilities to pay for future retiree health benefits.

The Honorable Board of Supervisors

5/10/2011

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Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sean Rogan", followed by a horizontal line.

SEAN ROGAN

Executive Director

SR:lt